
CHAPTER 2. VALUATION INSTRUCTIONS

- 2-1. REHABILITATION. Existing rental projects which will undergo substantial rehabilitation may be processed for conversion to cooperative ownership and for mortgage insurance under Section 213 Management-Type, Rehabilitation. Projects need not be previously insured by HUD-FHA. Presale of all vacated units (not less than 70% of the total number of units) to cooperative subscribers is required prior to endorsement.
- 2-2. FINDING OF VALUE. The mortgage is limited to 97% of appraised value, rather than 97% of replacement cost.
- 2-3. VALUE FOR CONTINUED USE AS A COOPERATIVE. "Appraised value.... for continued use as a cooperative," refers to a price which a cooperative group is warranted in applying for, a property, rather than a price for which a property may be sold. Under the principle of substitution, it must be recognized that a cooperative group is not warranted in paying more than an equivalent property would currently cost to acquire in the rental investment market.
- 2-4. VALUATION AS A RENTAL PROJECT. A supplementary Form 2264 is used to estimate the value of the property as a rental project, after rehabilitation. Form 2264 will be completed in accordance with instructions for Section 207, with the following exceptions:
- a. Enter year built.
 - b. Rent formula is not required. Use market rents after rehabilitation.
 - c. Estimated Replacement Cost (in Section G) is not completed.
 - d. Estimate of operating deficit (Section I); site appraisal (Section J); cost not attributable to dwelling use (Section M); and construction budget (Section N) are not completed.
 - e. After the income approach and the comparison approach to value have been completed, the following entry will be made in remarks:

"Estimated market price of property by
Capitalization or Comparison \$_____"

2-5. PROCESSING AS A COOPERATIVE. Form 2264-B will reflect the analysis of the project and its operation after rehabilitation and after conversion to cooperative ownership. Processing will be in accordance with instructions for Section 213, Management Type, Proposed Construction, with the following exceptions:

a. In the space below Item H-80, type the following:

Estimated Market Price of Property
By Capitalization or Comparison \$_____

Estimated Closing Costs \$_____

*Estimated Legal, Organization &
Marketing \$_____

Value for Continued Use as a
Cooperative \$_____

b. The "As Is" Value of the Property for Rehabilitation is defined as the lesser of (1) and (2).

*(1) The "As Is" Value by the Residual Approach is the supportable total replacement cost less the estimated rehabilitation costs (off-site) and (on-site) including contingency reserve, carrying charges and financing, legal, organization and marketing.

(2) The Fair Market Value "As Is" by the Market Approach will be based upon the going market price for comparable properties in similar condition to the property being appraised.

The supportable total replacement cost, in (1), above, will equal the Value for Continued Use as a Cooperative as entered in the space below Item H-80. After a. and b. have been determined through the use of worksheets, the smaller of a. and b. becomes the "As Is" Value of the Property for Rehabilitation (amended Item 79) and the replacement cost estimate is made by completing Section H, of Form 2264-B. The rehabilitation cost estimate is made in accordance with procedures in Reference (4) of the Foreword.

c. Mortgage amount is assumed to be 97% of Item 80 or 97% of Value for Continued Use as a Cooperative, whichever is the lesser.

*(See Chapter 1, Paragraph 11-b, of this Handbook.)

- d. Site appraisal (Section O) will not be completed, except that Item 12 will be used to record the last arms-length transaction of the "as is" property.
- e. Section J will be completed by the mortgage credit processor.
- f. Section L will be completed by the cost analyst.
- g. Section M is omitted.